



JTPA

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Serving the People of California

DIRECTIVE

Date: September 2, 1997

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TO: SERVICE DELIVERY AREA ADMINISTRATORS
PRIVATE INDUSTRY COUNCIL CHAIRPERSONS
JTPD PROGRAM OPERATORS
EDD JOB SERVICE OFFICE MANAGERS
JTPD STAFF

SUBJECT: ALLOWABLE COSTS

EXECUTIVE SUMMARY:

Purpose:

This Directive transmits the policy and guidelines for determining the allowable costs in the Job Training Partnership Act (JTPA) program.

Scope:

This Directive provides the State requirements for allowable costs and guidance on the federal requirements.

Effective Date:

This Directive is effective upon its release.

REFERENCES:

- JTPA Section 164(a)(2)
- Title 20 Code of Federal Regulations (CFR), Part 627.435
- Office of Management and Budget (OMB) Circular A-21, dated March 6, 1979, amended June 4, 1986, October 1, 1991 and July 15, 1993
- OMB Circular A-87, dated May 4, 1995
- OMB Circular A-102, dated March 11, 1988
- OMB Circular A-122, dated July 8, 1980, amended April 27, 1984 and October 6, 1995
- California Unemployment Insurance Code (CUIC) Section 15039.7

STATE-IMPOSED REQUIREMENTS:

This Directive contains State-imposed requirements that are shown in ***bold, italic*** type. ***The table of allowable costs contains State-imposed requirements only.***

FILING INSTRUCTIONS:

This Directive supersedes Interim Directive 94-16, dated August 10, 1994. Retain this Directive until further notice.

BACKGROUND:

The amended JTPA, in Section 164(a)(2), requires “the Secretary to prescribe regulations establishing uniform cost principles substantially equivalent to those generally applicable to recipients of Federal grant funds.”

The OMB issues circulars which prescribe the allowability of cost for federal programs by type of entity providing the service. The JTPA adopted only from OMB circulars the principles of allowable and unallowable cost, not the specific items of cost. Title 20 CFR, Part 627.435 establishes the allowable cost guidelines indicating unallowable costs, costs to be assigned based on the OMB circulars and costs for which the governor must prescribe guidelines. Although the governor has the option of adopting the OMB selected items of cost, the State chose to prescribe the allowability of certain items of cost without adopting the circulars as a whole.

POLICY AND PROCEDURES:

Title 20 CFR, Part 627.435 prescribes general principles to be applied to a cost in order to determine if it is allowable. The cost must be necessary and reasonable; the cost may not be a general expense of the government; and costs shall be accorded consistent treatment using generally accepted accounting principles appropriate to the program.

The determination regarding the assignment of a cost as direct or indirect per Title 20 CFR, Part 627.435(b) should be based on the OMB cost circulars. The applicable OMB circulars are:

- OMB Circular A-87 for State, local and Indian tribal governments
- OMB Circular A-122 for nonprofit organizations, excluding hospitals
- OMB Circular A-21 for educational institutions
- 48 CFR Part 31 for for-profit organizations

Please note copies of the OMB circulars may be accessed through the internet at:

<http://www2.whitehouse.gov/WH/EOP/omb>

Title 20 CFR, Part 627.435 details specific costs which are allowable and unallowable. This Directive does not reiterate these costs. The Governor must, however, prescribe and implement guidelines on allowable costs not addressed in Title 20 CFR, Part 627.435. Included are the 16 cost items listed in Title 20 CFR, Part 627.435. The following table contains the State guidelines for the 16 items of cost and other State-imposed requirements:

ITEM OF COST	DESCRIPTION	ALLOWABLE
Advertising	<p>Includes the cost of advertising in the media. Allowable advertising costs may be for:</p> <ul style="list-style-type: none"> recruitment of personnel required to conduct the program; solicitation of bids for goods and services for the program; disposal of scrap or surplus materials from the program; and recruitment of participants and participation of employers. 	Yes
Advisory Council	<p>Includes the cost of the Private Industry Council (PIC) and other advisory councils. The CUIC Section 15039.7 states that the State Job Training Coordinating Council (SJTCC) members may receive up to \$100 for each day of actual attendance at meetings and other official business of the council, not to exceed \$300 per month, and shall receive their necessary and actual expenses incurred in the performance of their official duties. If a Service Delivery Area (SDA) chooses to pay PIC members, the CUIC should be the guidance. The rules and regulations that govern the SDA's costs must govern the PIC's costs.</p> <p>The following specific costs are allowable when necessary and reasonable for the effective operation of an advisory council:</p> <ul style="list-style-type: none"> Costs related to incorporation Liability Insurance for the Chairperson and Officers Employment and training-related seminars and workshops (council capacity building) Planning meetings Honorariums for council or committee members attending meetings (subject to CUIC restrictions noted above) Travel costs of council or committee members Legal fees as they relate to Council issues, such as bylaw revisions and interpretations Council staff Organizational fees and memberships 	Yes
Buildings, Capital Assets	Includes traditionally constructed buildings and modular units which are permanently fixed to the property.	No
Building Space	Includes rental or lease costs in publicly or privately owned buildings. Less-than-arms-length leases must be treated as if the organization leasing the property owned the property. A less-than-arms-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other (such as divisions of an organization; organizations under common control through common officers, directors, or members; and an organization and a director, trustee, officer or key employee of the organization or his immediate family either directly or through corporations, trusts, or similar arrangements in which they hold a controlling interest).	Yes
Leasehold Improvements	Includes any modification, addition, restoration, or other improvement: 1) that increases the usefulness, productivity, or serviceable life of an existing building, structure; 2) that is classified for accounting purposes as a "fixed asset;" and 3) the cost of which increases the recorded value of the existing building or structure.	Only with prior approval

ITEM OF COST	DESCRIPTION	ALLOWABLE
Rearrange- ment and Alteration Under \$100,000 Per Facility	Includes costs incurred for ordinary and normal rearrangements and alterations of facilities belonging to the landlord. Costs may include wiring for telephones and computers, partitions, carpet, paint, alterations to meeting Americans with Disabilities Act requirements. The cost must benefit JTPA and only be JTPA's share of the cost.	Yes
Rearrange- ment and Alteration \$100,000 and Over Per Facility	Includes costs noted above.	Only with prior approval
Building Depreciation	Includes the costs of buildings and capital improvements through allowances for depreciation or other equivalent costs. Where the depreciation method is followed, adequate property records must be maintained, and any generally accepted method of computing depreciation may be used. The computation of depreciation or use allowance will be based on acquisition cost and exclude the cost of land. The computation will exclude the cost of any portion of the building and improvements either donated or otherwise borne directly or indirectly by the state or federal government. If actual cost records have not been maintained, a reasonable estimate of the original acquisition cost may be used as the basis for the depreciation or use allowance. In lieu of depreciation, a use allowance for building and improvements may be computed at an annual rate <u>not</u> to exceed two per cent of acquisition cost.	Yes
Idle Facilities or Capacity Under 3 Months	Includes all costs associated with space used for a JTPA activity, idle or excessive, for less than three (3) months.	Yes
Idle Facilities or Capacity for 3 Months or More	Includes all costs associated with space, idle or excessive, for three (3) months or more. The cost includes, but is not limited to, rent, lease expense, depreciation or use allowance, utilities, insurance, maintenance, security, and similar costs.	Only with prior approval
Long Term Lease Agreements	Lease costs that are partially deferred, via an escalating rate lease, should be charged to the period(s) benefited. Deferred lease payments should be charged to the period from which it was deferred.	Yes
Equipment, Capital Assets for SDAs	Equipment purchased with grant funds may be expensed in the year of acquisition in accordance with Generally Accepted Accounting Principles for SDAs that are nonprofit or governmental entities. In order to expense the equipment, it must be placed into service. Alternatively, SDAs may charge JTPA for equipment through depreciation (or use allowance). However, a combination of the two methods may <u>not</u> be used in connection with a single class of fixed asset.	Yes
Equipment, Capital Assets for Subrecipients	Includes the purchase price. The equipment may only be used for JTPA activities unless JTPA is compensated. Title to the equipment must be held by the SDA. The equipment must be returned to the SDA or the SDA must be adequately compensated for the value of the equipment.	Yes

ITEM OF COST	DESCRIPTION	ALLOWABLE
Equipment Depreciation	The computation of depreciation or use allowance must be based on acquisition cost. The computation must exclude any portion of the cost either donated or otherwise previously borne directly or indirectly by the state or federal government. If actual cost records have not been maintained, a reasonable estimate of the acquisition cost may be used as the basis for the depreciation or use allowance. Where the depreciation method is followed, adequate property records must be maintained, and any generally accepted method of computing depreciation may be used. In lieu of depreciation, a use allowance for equipment may be computed at an annual rate not exceeding 6 2/3 percent of the acquisition cost. No depreciation may be charged for equipment that is fully depreciated. However, a reasonable use allowance may be negotiated for any such equipment if such negotiation considers the cost of the equipment, the estimated useful life remaining at the time of negotiation, the effect of any increased maintenance charges or decreased efficiency due to age, and any other factors pertinent to the utilization of the equipment, and the negotiation is in writing.	Yes
OJT Employer, Training Institutions/ Other Vendor Payments	Includes payments to On-the-Job Training (OJT) employers according to Title 20 CFR, Part 627.240, tuition and related payments to training institutions and other vendor payments on behalf of participants. These costs are allowable as long as they do not conflict with the JTPA and its regulations.	Yes
Participant Health Insurance	Includes health insurance to cover work and training activities of the participant and may include general health insurance. Health insurance for general health needs of the participant must be necessary, reasonable and allocable to the JTPA program. To be necessary, the participant must need the coverage to continue in their training program; to be reasonable, the cost of such insurance must be procured following the JTPA procurement requirements; and to be allocable, the period of coverage must be for the period the participant is in training and the costs charged to that period.	Yes
Participant Award Ceremonies	Includes the cost of food at allowable functions, such as a graduation or award ceremonies. The food cost should be customary and reasonable and should be provided for in the subrecipient's policies.	Yes
Travel	Includes expenses for transportation, lodging, subsistence, and such items incurred by employees, volunteers, PIC staff and members, and other dignitaries (i.e., Chief Elected Official, board of supervisors, superintendent of schools, etc.) who are on travel status for official business specifically related to JTPA. These costs may be charged on an actual basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip, and results in charges consistent with those normally allowed in like circumstances in nonfederally sponsored activities of the subrecipient. Note: The reimbursement policies for the State of California neither establish maximums nor set minimums for subrecipient travel costs. The reasonableness of subrecipient travel may better be judged on local conditions and circumstances, along with the normal travel policies of local units of government.	Yes
Travel- Air Fares	Air fare should be at the most economical rate available. Factors in the consideration of most economical rate should include the amount of lead time provided to plan the trip, lost staff time, departure and arrival location and whether the fare is refundable.	Yes

ITEM OF COST	DESCRIPTION	ALLOWABLE
Pre-agreement (cost of services prior to execution of the contract)	Includes costs incurred prior to the effective date of the subcontract, when such cost is specific to the scope and/or work statement and only when specifically provided for and adequately disclosed in the subcontract agreement itself. Pre-agreement cost does not include a subrecipients normal cost of operations, such as grant applications, budgeting, and other pre-agreement activities. These costs are considered part of an entity's ongoing operational efforts.	Yes
Professional Services	Includes the cost of services rendered by individuals or organizations not a part of the grantee organization. These are allowable subject to proper competitive procurement practices.	Yes
Profit Paid to Subrecipients	Includes revenues in excess of costs and salaries of owners when the salaries are excessive in comparison to salaries paid for similar work in the area. Profit shall be negotiated as a separate element of price. There is no set percentage or amount of profit established by the Governor. The following shall be considered when negotiating profit: <ul style="list-style-type: none"> • the complexity of the work to be performed; • the risk borne by the contractor (contracts that specify performance carry greater risk than those that do not); • the contractor's investment; • the amount of the subcontract (small contracts may require higher profits to provide incentive for contractors to participate); • the quality of the contractor's record of past performance; • industry profit rates in the surrounding geographical area for similar training work; and • market conditions (competition) in the surrounding geographical area. 	Yes
Fund Raising Activities	Includes staff and incidental costs expended to solicit contributions and to record contributions. The cost of generating the contributions is administrative and should be kept to a minimum. The contributions received must be expended for JTPA activities.	Yes
Insurance and Indemnification	The cost of insurance required, or approved and maintained pursuant to the grant agreement is allowable. Costs of other insurance in connection with the general conduct of activities are allowable subject to the following limitations: (1) types and extent and cost of coverage will be in accordance with general local government policy and/or sound business practice; (2) cost of insurance or of contributions to any reserve account covering the risk of loss of, or damage to, federal government property are allowable to the extent that the organization is liable for such loss or damage. Contributions to a reserve for a self-insurance program approved by a cognizant agency are allowable to the extent that the type of coverage, extent of coverage, and the rates and premiums would have been allowed had insurance been purchased to cover the risk. Actual losses that could have been covered by permissible insurance (through an approved self-insurance program or otherwise) are unallowable unless expressly provided for in the grant agreement. However, costs incurred because of losses not covered under nominal deductible insurance coverage provided in keeping with sound management practice, and minor losses not covered by insurance, such as spoilage, breakage and disappearance of small hand tools that occur in the ordinary course of operations, are allowable.	Yes

ITEM OF COST	DESCRIPTION	ALLOWABLE
Interest	Includes interest on borrowings (however represented), bond discounts, any financing costs (except as provided for as part of allowable rent or lease agreement).	No
Printing and Duplication	Includes the cost for printing and duplication services necessary for grant administration, such as forms, reports, manuals, and other informational literature.	Yes
Proposal Costs	Includes the direct and indirect cost of preparing proposals for potential JTPA funding when those proposals are submitted to EDD.	Yes
Organization	Includes the cost associated with the establishment or reorganization of an SDA or PIC. These may include incorporation, consultant and attorney fees.	Yes
Subscriptions	Includes the cost of magazines, trade journals, other periodically printed material, and internet access and subscriptions. The subscription must be under the agency or its officer/administration name and must be mailed to the subrecipient's address.	Yes
Taxes-Income	Include federal, state and local taxes paid on profits.	No
Taxes-Sales, Use, Excise, etc.	In general, taxes or payments in lieu of taxes that the grantee agency is legally required to pay, exclusive of income taxes are allowable.	Yes
Termination	Includes the direct and indirect cost of closeout and post grant period activities associated with the termination of a grant. The JTPD will negotiate with the grantee, and determine on a case by case basis as to allowable and unallowable termination costs.	Only with prior approval
Transportation -Goods	Includes expenses related to goods purchased, delivered, or moved from one location to another. The cost of such transportation (freight, cartage, express delivery and other such costs) shall be arranged in accordance with sound procurement principles.	Yes

PERSONNEL COSTS

ITEM OF COST	DESCRIPTION	ALLOWABLE
Automobile Allowances	Includes set monthly payments, the actual use of an automobile, or other personnel related method for determining the amount of compensation. The cost will be part of the total compensation of the employee or officer; the cost must be reasonable and must be consistent with the allowance given to other similarly classified employees of the organization.	Yes
Compensation for Services	Includes all remuneration, paid currently or accrued, for services rendered during the period of performance under the grant agreement, including but not necessarily limited to wages, salaries, and supplementary compensation and benefits. The costs of such compensation are allowable to the extent that total compensation for individual employees: (1) is reasonable for the services rendered; (2) when applicable, is in accordance with local government laws and rules and which meet local merit or other system requirements; and (3) is determined and supported as provided below. Compensation for employees engaged in JTPA activities will be considered reasonable to the extent that it is consistent with and comparable to compensation paid for similar work in the local government. In cases where the specialties required of employees for the JTPA activities are not found in the local government, compensation will be considered reasonable if comparable to either similar positions (with same and/or similar responsibilities of budget, span of control, political sensitivity, etc.) or when no comparable position exists in	Yes

ITEM OF COST	DESCRIPTION	ALLOWABLE
PERSONNEL COSTS		
Compensation for Services (cont.)	local government, to similar work in the labor market in which the employing government competes for the kind of employees involved. Compensation surveys providing data representative of the labor market involved will be an acceptable basis for evaluating the reasonableness.	
Bonuses (Employee)	Includes payments made to employees because of exceptional contributions they have made to the subrecipients organization. Bonuses are allowable when they are in accordance with formal written policy (i.e., for SDA, the PIC has approved the bonus). All bonuses are considered part of the employees total compensation and are subject to limitations provided in the compensation for services section.	Yes
Ceremonies and Employee Morale	Includes the cost of employee newsletters and nonmonetary awards and recognition ceremonies. The cost of reasonable refreshments such as coffee and donuts are allowable at such recognition ceremonies, but the cost of a meal (i.e., breakfast, lunch or dinner) is not allowable. Employee morale cost does not include the cost associated with employee parties, picnics, and the like, which are unallowable.	Yes
Fringe Benefits	Includes all direct and indirect costs associated with employee benefits in the form of employer contributions or expenses for social security, life and health insurance plans, unemployment insurance coverage, worker's compensation insurance, pension plans, and the like, provided such benefits are contained in the employment agreement or the subrecipient operating policies. Also includes employee benefits in the form of regular compensation paid during periods of authorized absence from the job, such as holidays, annual leave, sick leave, court leave, military leave, and the like when they are earned under a formal leave system consistent with leave systems used by local government. Accrued leave systems that include a recognition of leave expense when it is earned rather than when it is paid are allowable if adequately documented and consistently used by the subrecipient. Both funded and unfunded leave systems are allowable. These systems should be consistently followed over time and not changed arbitrarily.	Yes
Memberships	Includes the cost of a membership in civic, technical and professional organizations, provided that the membership relates to JTPA program and/or administrative goals and accrues benefit to the JTPA program, and the organization joined does not expend a significant portion of its membership fees on lobbying activities.	Yes
Parking Fees, Employee (monthly)	The cost of parking fees is allowable to the extent that it is included in the total monthly compensation of the employee or officer is reasonable (see compensation of services above) and is consistent with the allowance given to other similarly classified employees of the organization.	Yes
Severance Pay	Includes amount paid to a subrecipient employee upon termination of services. The amount should be based on an established, published agency policy, or an amount negotiated and made part of the employee's employment agreement. Severance pay is not allowable if negotiated after termination or when termination is imminent. For nongovernmental SDAs, severance pay which is not part of the subrecipient's normal policy must be adequately disclosed, in sufficient detail in the SDA's two year plan for it to be allowable.	Yes

All costs charged to the JTPA program must be authorized or not prohibited under federal, state or local laws or regulations. The costs must be consistent with the policies, regulations and procedures that uniformly apply to other activities of the agency of which the subrecipient is a part. In addition to the criteria established above, JTPA costs are subjected to the limits established in the Act. If a limit is exceeded, an allowable cost will not be reimbursed.

For items of cost that require prior approval, please contact your Program Manager. Rearrangement and alteration costs of \$100,000 and over and leasehold improvement costs will require sufficient information to determine the benefit of the costs. Information needed may include: terms of the lease, rental cost of similar property in the area, the approximate value of the building, the titles and cost categories that will be charged, local governmental approval of proposed lease, and any additional information deemed necessary to make the determination.

ACTION:

Bring this Directive to the attention of all affected staff and service providers.

INQUIRIES:

Please direct questions about this Directive to your Program Manager or Jean Cole, of the Policy Unit, at (916) 654-8284.

/S/ BILL BURKE
Acting Chief